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ABSTRACT

In the new environment of increased international trade and investment flows, human resources represent the key competitive edge of this interconnected global economy. The share the United States has of worldwide output is shrinking. This issue explores data that provide a snapshot of how globalization is affecting the economy and changing its very nature. The data include the following: the share of worldwide gross domestic product (GDP) accounted for by trade has exploded; the U.S. economy is becoming more integrated into the world economy; the U.S. public understands it is part of the global economy; a surprising collection of states rely upon exports for part of their gross state product; the relationship between economic competitiveness and economic growth is strong and positive; many of the largest companies are now located outside the United States; labor force growth outside the United States is much faster; immigration is important for future labor force growth; investments in education are increasing in the world while falling in the United States; the United States performs poorly in international comparisons of academic achievement; U.S. workers are among the most likely to participate in job-related training; education and training courses use a variety of instructional media; the reason for non-participation varied across countries among those who wanted to participate in training but could not; Western Europe leads the United States and Japan in producing science and engineering Ph.D.s; and foreign students represent a large share of science and engineering Ph.D.s in the United States, yet more foreign-national Ph.D.s are returning home to work. (Contains 24 graphs.) (YLB)

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SUMMER 1999

ED 432 689

NATIONAL ALLIANCE OF BUSINESS

WORKFORCE ECONOMICS TRENDS

THE BUSINESS VOICE ON WORKFORCE DEVELOPMENT

GLOBALIZATION: SEPARATING FACT FROM FANTASY

The increased exposure of economies, companies, and products to competitors from around the world is one of the key drivers of the new economy. Nations, companies, and employees are living in an increasingly interconnected world and the impact of globalization is profound. As Federal Reserve Board Chairman Alan Greenspan recently observed, "The evidence is overwhelmingly persuasive that the massive increase in world competition--a consequence of broadening trade flows--has fostered markedly higher standards of living for almost all countries who have participated in cross-border trade." In this issue of Workforce Economics Trends, we explore some of the most persuasive dimensions of the new economy.

Globalization is important as companies strive to improve productivity and increase efficiency to remain competitive. The growth of the global marketplace also presents new opportunities for companies to expand the market for their goods and services. Finally, globalization increases living standards. A 1996 National Bureau of Economic Research study by Frankel and Romer found that trade has a large, significant, and positive effect on income. More and more companies are taking advantage of the expanding global marketplace to increase their access to markets and increase market share. And finally, workers in the U.S. now compete with workers from all over the world.

As John Reed, then chairman of Citicorp observed in 1996, "Business people know they must compete and find a place within the globally open marketplace... the competitor is not likely to be next door-- more likely your competitor resides in the next continent... you can also source globally, benefiting from lower costs and different labor forces, but you must invest in the skills and structures to do so."

In this issue, we explore a range of data that provide a snapshot of how globalization is affecting the economy and changing its very nature. Many common perceptions about trade and investment do not square with reality. Certainly international trade and investment flows have increased over time, but how these trends have played out is more complicated than the simple anecdotes that we often use to characterize their impact on the economy. In this new environment, human resources -- the knowledge, skills, and abilities of people -- will represent the key competitive edge of this interconnected global economy. An important issue and challenge for educators, business, and policymakers is ensuring that our students meet these world class standards.

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Workforce Economics Trends is a compilation prepared by the Alliance of research profiling our nation's current and future workforce. The information --- statistics, facts and demographics --- highlighted is intended to help advance efforts to build a quality workforce.

Alliance members receive *Workforce Economics Trends* six times per year, bimonthly. Further information and analysis about the state of the American workforce are provided through the Alliance's newsletters --- *Work America* and *Workforce Economics*.

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National Alliance of Business
1201 New York Avenue, NW Washington DC 20005
800-787-2848 Fax 202-289-1303 TDD 202-289-2977
email: info@nab.com Website: www.nab.com

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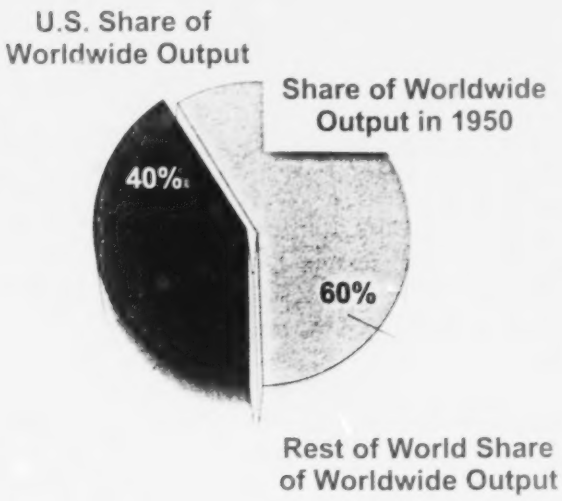
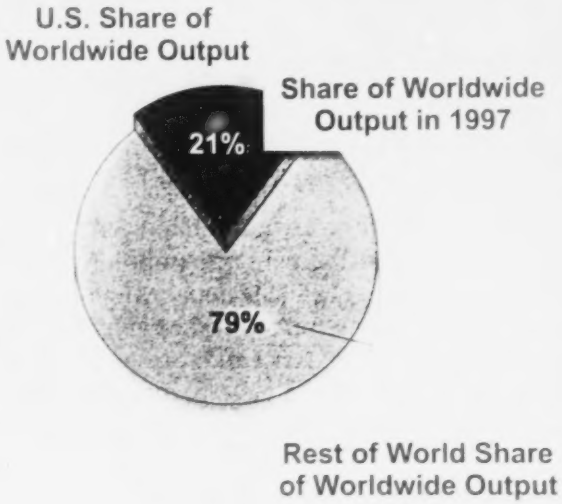
The U.S. Share of World Output is Shrinking...

The share of world output (the sum of all goods and services produced) represented by the United States has been cut in half since the end of WW II. In 1950, the United States accounted for nearly 40 percent of all output in the world. Currently, the United States accounts for less than 22 percent of all output in the world.

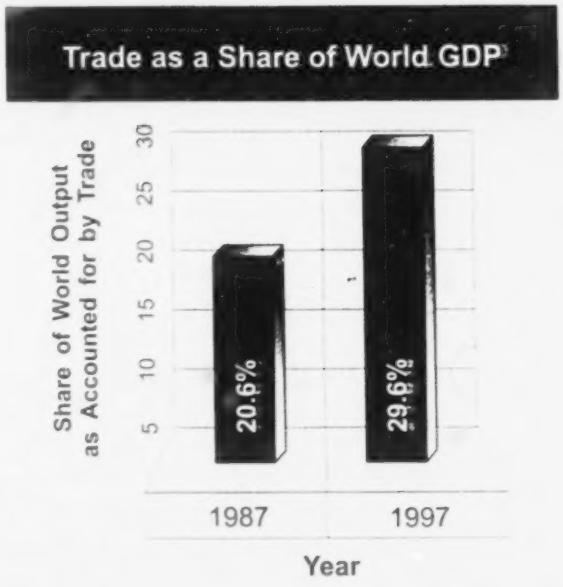




Source: The World Bank, *1999 World Development Indicators*

The Share of Worldwide Gross Domestic Product (GDP) Accounted for by Trade has Exploded...

The share of world output accounted for by trade has exploded over the past few decades. Trade as a share of world output rose from 7 percent in the 1950s to nearly 30 percent today. Between 1987 and 1997, trade as a percent of total output rose 9 percentage points from 20.6 percent in 1987 to 29.6 percent in 1997.



Source: The World Bank, *1999 World Development Indicators*

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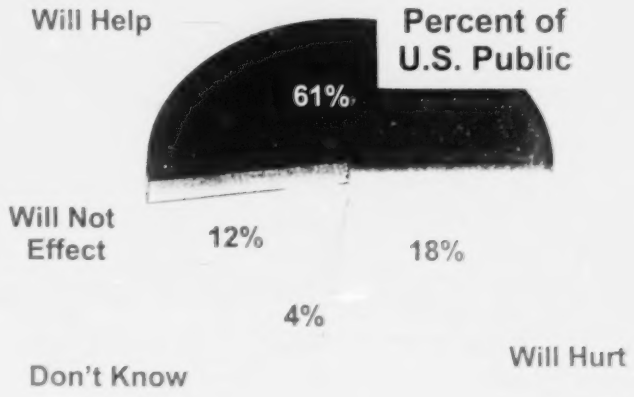
The U.S. Public Thinks That Trade and Globalization Will Strengthen Their Children's Future...

Question:

Thinking about increasing trade and globalization, do you think this will help your children, will hurt your children, or will not affect them?



Source: Mark J. Penn, "Poll: Choosing the New Economy," *Blueprint: Ideas for a New Century*, Winter 1999.

The U.S. Economy is Also Becoming More Integrated into the World Economy...

Since 1959, the portion of U.S. Gross Domestic Product (GDP) accounted for by trade (the sum of imports and exports) has more than tripled. In 1959, trade accounted for just over 8 percent of U.S. GDP; by 1998, trade accounted for nearly 30 percent of U.S. GDP.

Source: *1999 Economic Report of the President* and *Economic Indicators*

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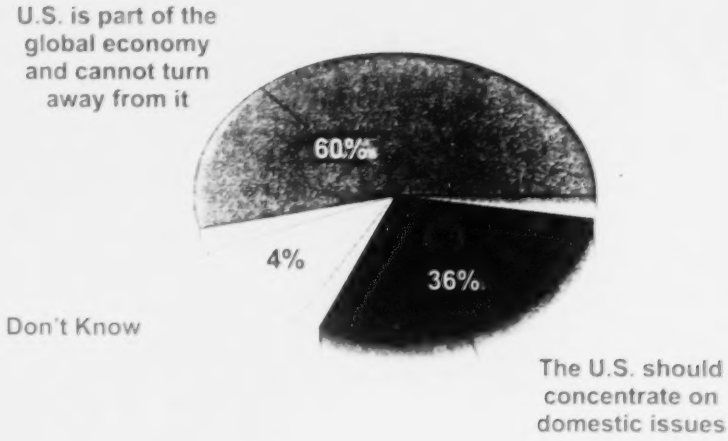
The American Public Understands it is Part of the Global Economy...

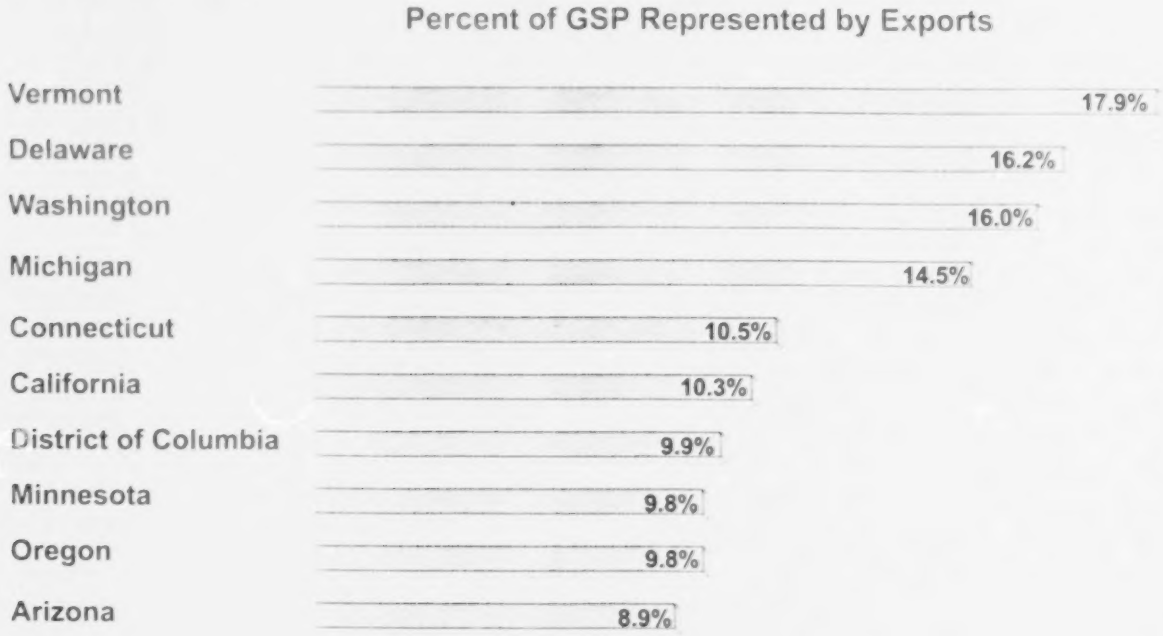
A recent poll found that a majority of the public understands that the U.S. is part of the global economy and cannot turn away from it now, even if it wanted to. Only about one-third of the public said the U.S. should concentrate on domestic interests only.


U.S. is part of the global economy and cannot turn away from it
60%
4%
36%
Don't Know
The U.S. should concentrate on domestic issues

Source: Mark J. Penn, "Poll: Choosing the New Economy," *Blueprint: Ideas for a New Century*, Winter 1999.

A Surprising Collection of States Rely Upon Exports for a Part of Their Gross State Product (GSP) ...

In 1996, international trade was an important component of several state economies. Surprisingly, many of these states do not have an obvious natural competitive advantage, such as a large port. Vermont is the state with the highest ratio of exports to output in 1996.



Source: Progressive Policy Institute, "Trade Fact Sheet," June 1999.

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There is a Strong and Positive Relationship Between Economic Competitiveness and Economic Growth...

For several years the World Economic Forum has ranked several countries in terms of their economic competitiveness. As the graph highlights, there is a positive relationship between the World Economic Forum Competitiveness Index and economic growth.

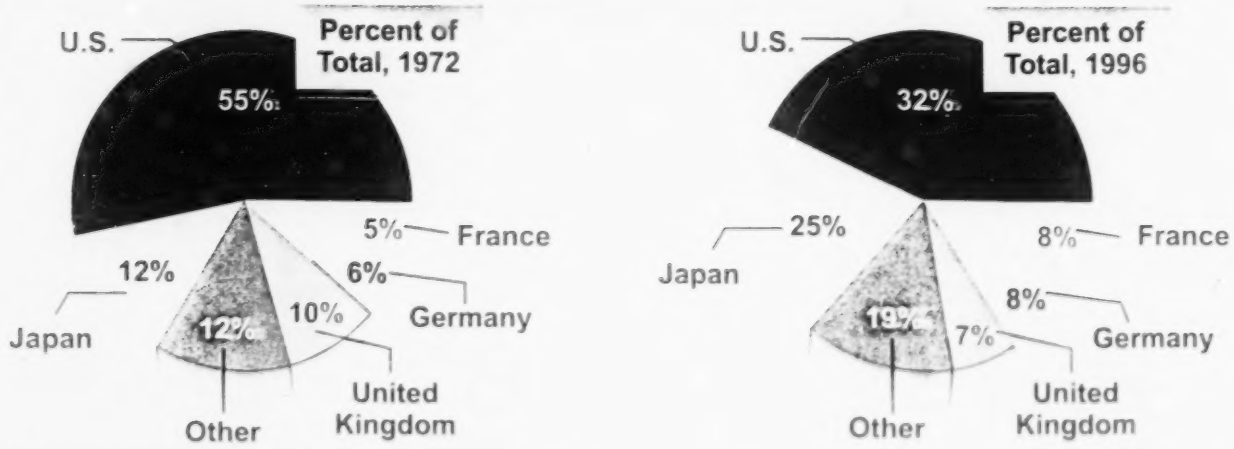
Source: World Economic Forum, *The Global Competitiveness Report: 1998*

The Relationship Between Competitiveness and Economic Growth

Many of the Largest Companies are Now Located Outside the United States...

The share of the largest 500 companies in the world headquartered in the U.S. has fallen dramatically. The U.S. now accounts for just over 32 percent of the Global 500; in 1972 the U.S. accounted for 55 percent. Nearly one in five of the largest companies in the world are now headquartered outside of the U.S., Japan, Germany, France, and the United Kingdom. In 1972, one in ten of the largest companies in the world were located outside of these five countries.

Location of 500 Largest Industrial Corporations in the World By Country



Note: Companies are ranked on the basis of revenues.
Note: Percentages may not add to 100 because of rounding.

Source: Fortune Magazine (various issues), "The Global 500"

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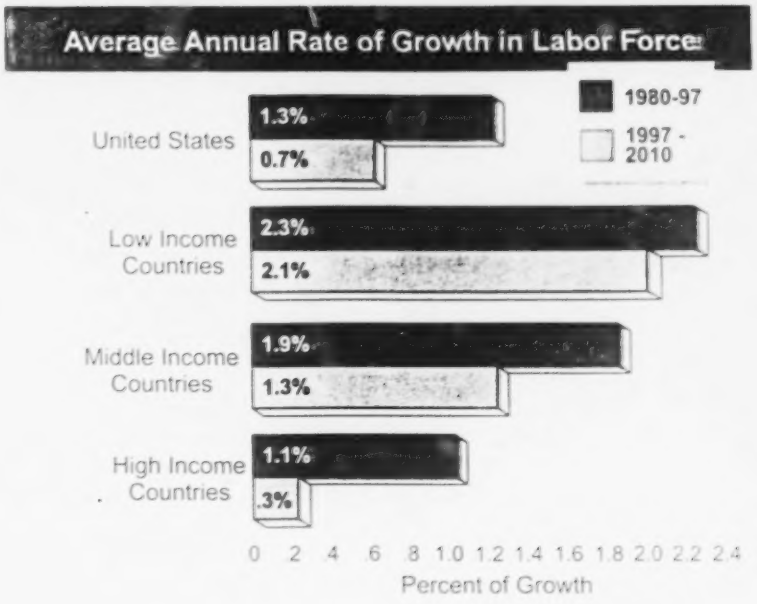
Labor Force Growth in Areas Outside of the United States Will be Much Faster...

The fastest rates of growth in labor supply are concentrated in low and middle-income countries. These trends are projected to continue. Between 1997 and 2010, the average annual rate of growth in labor supply in low-income countries will be triple the rate in the United States.



Source: The World Bank, *1999 World Development Indicators*

Changes in Labor Supply are Important to Economic Growth...

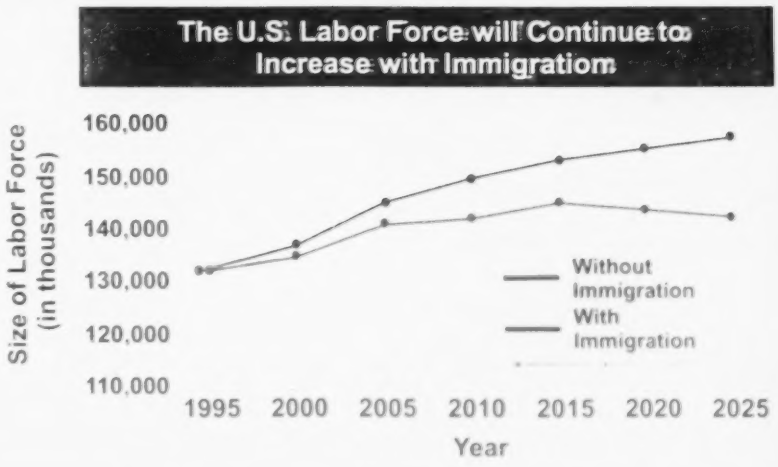
A National Bureau of Economic Research (NBER) study found that demographic changes--in particular, growth in the working age population--are important determinants of economic growth. Bloom and Williamson found that population dynamics accounted for one-third of the growth in per capita Gross Domestic Product (GDP) between 1965 and 1990 for emerging Asian economies. They also estimate that a one- percent increase in the rate of growth of the working age population translated into a 1.46- percent increase in the growth rate of per capita GDP.

Source: David Bloom and Jeffery Williamson, "Demographic Transitions and Economic Miracles in Emerging Asia" November 1997. National Bureau of Economic Research. Working Paper Number 6268.

Immigration Will be Important for Future Labor Force Growth...

A recent study finds that the U.S. labor force will continue to grow, but at diminishing rates, for the next 30 years. Under current immigration conditions, the labor force will continue to expand at an average annual rate of 0.6 percent. **Without immigration, the labor force will begin to decrease in about 2015.** Immigration will account for about 60 percent of projected labor force increase in the next 30 years.

Source: Jeffrey Passel and Joan R. Kahn, "Immigration, Fertility, and the Future American Workforce." The Urban Institute, March 1998.



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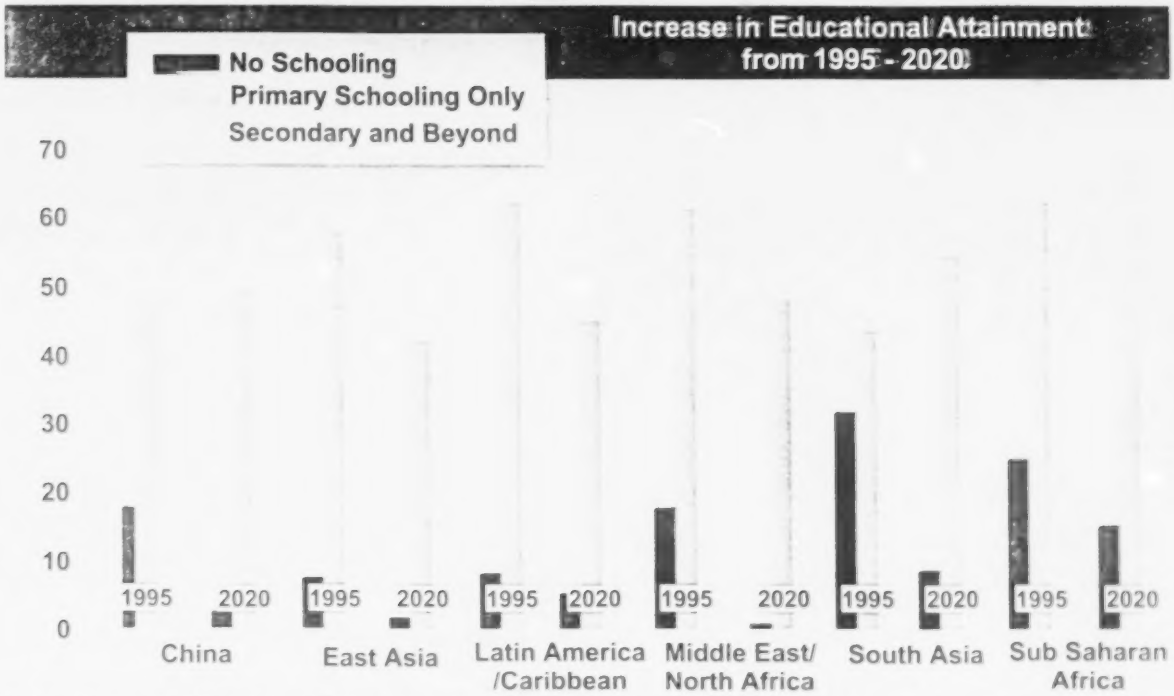
Developing Countries are Investing in Education...

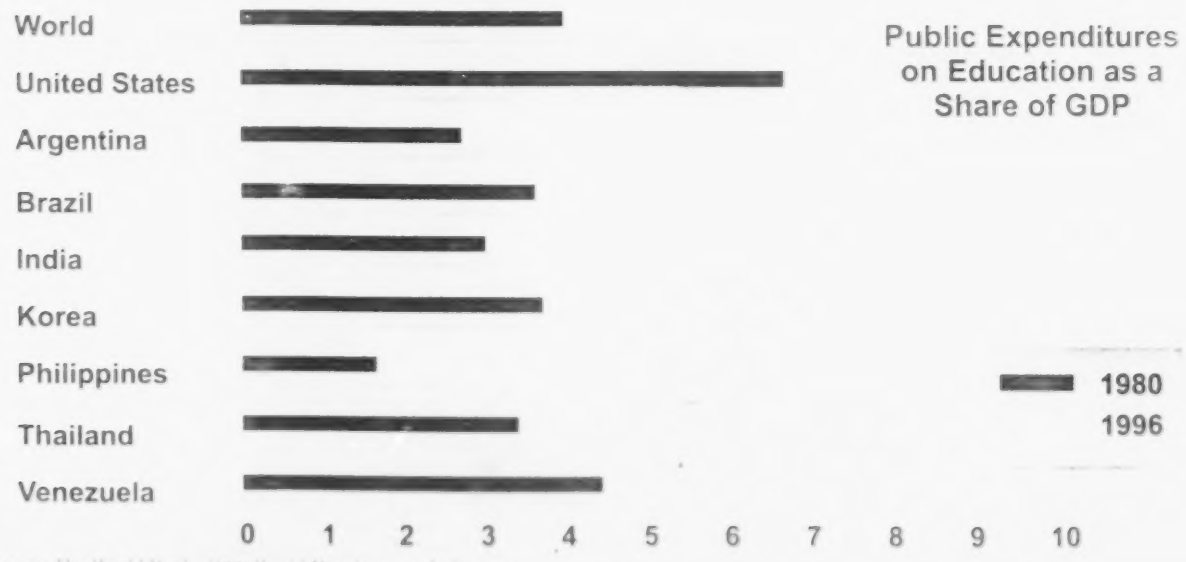
Educational attainment in several developing and emerging regions of the world is projected to increase rapidly. According to a study done by the World Bank, the share of the population under the age of 60 with higher levels of educational attainment is projected to increase rapidly by 2020.



Source: Vinod Ahuja and Deon Filmer, "Educational Attainment in Developing Countries: New Estimates and Projections Disaggregated by Country," May 1995. The World Bank Background Paper.

Investments in Education are Increasing in the World While Falling in the United States...

While the share of GDP devoted to education at all levels fell between 1980 and 1996 in the United States, the share of GDP devoted to education in many other countries increased.



Source: The World Bank, *1999 World Development Indicators*

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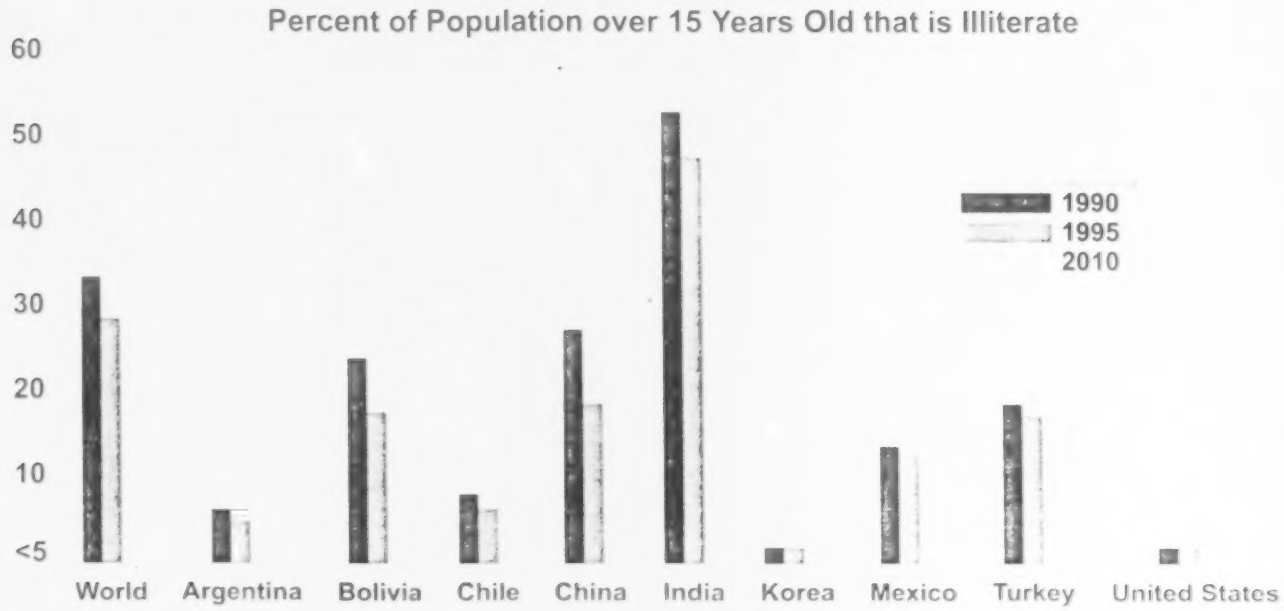
Literacy Rates Among the World Population Are Increasing...

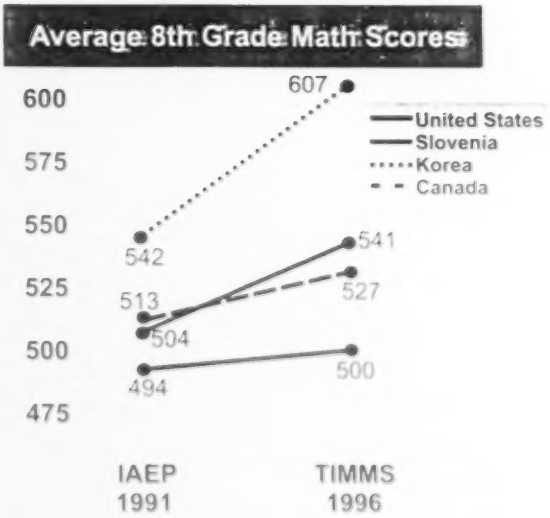
The share of the adult population that is illiterate is dropping. In 1990, one in three adults were illiterate; by 2010 we estimate that just over one in five adults will be illiterate.



Source: The World Bank, *1998 World Bank Indicators*

The United States Performs Poorly in International Comparisons of Academic Achievement...

The increase in eighth grade student achievement in math in the United States is much lower than the increase in other countries. Using data from the Third International Math and Science Study (TIMSS) and the International Assessment of Educational Progress (IAEP), several countries outperformed the United States and experienced larger increases in average test scores.



Source: Third International Math and Science Study and the International Assessment of Educational Progress.

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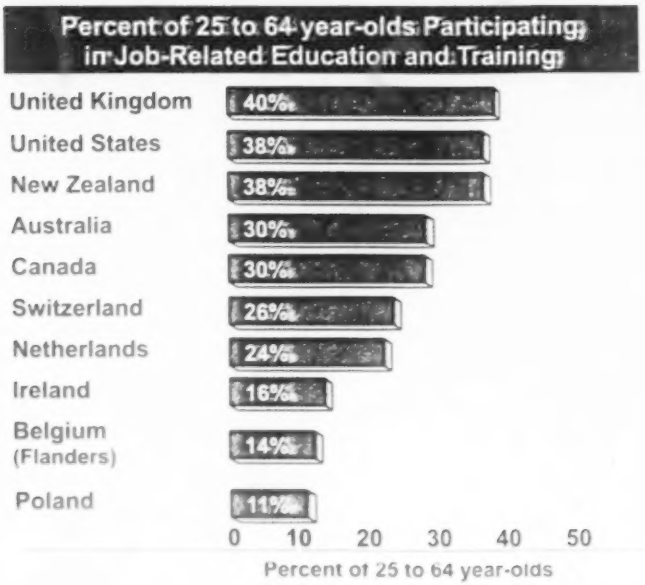
Workers in the United States are Among the Most Likely to Participate in Job-Related Training...

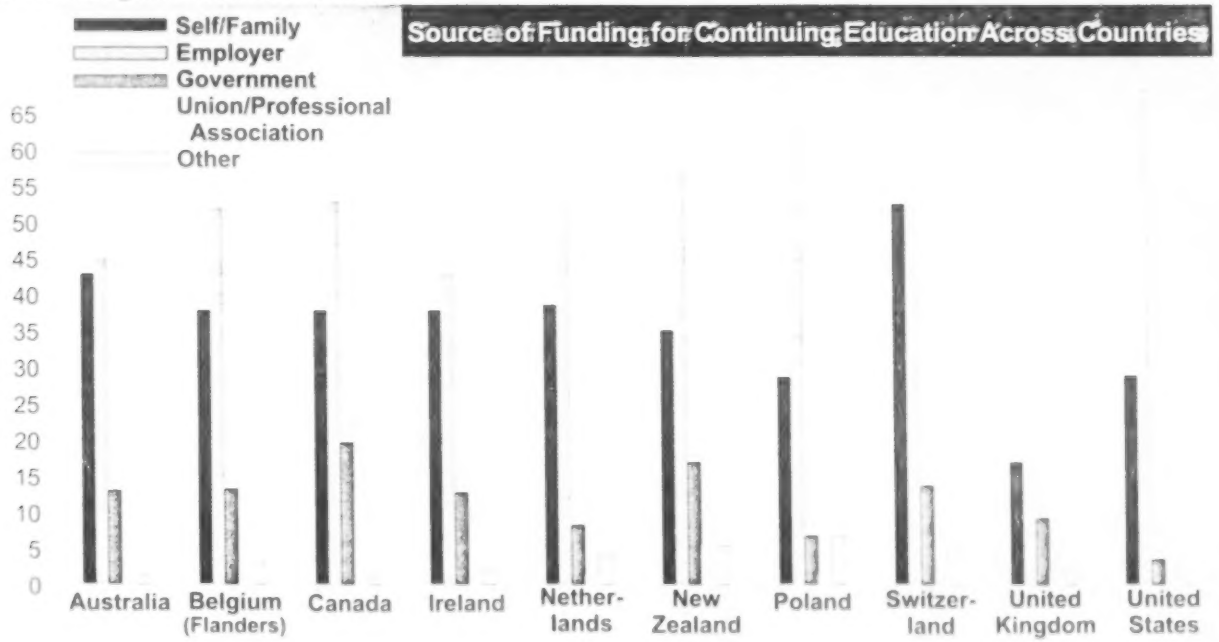


The United States is tied for second place in terms of job-related education and training among countries that participated in the International Adult Literacy Survey (IALS). This survey collected data on the incidence, duration, and nature of continuing education in 11 OECD countries. Comparable data across countries are extremely limited.

Source: Organisation for Economic Co-Operation and Development. *Education At A Glance: OECD Indicators 1995*

There are Differences in Who Helps Pay for Continued Education and Training...

Employers were the primary source of financial support for continuing education and training courses. Employers were the source of funding for over 60 percent of the courses in Poland, the United Kingdom and the United States. On the other hand, individuals contributed to the cost of funding in about a third of the courses.



Note: Numbers may add up to more than 100 percent since respondents could cite more than one source for support for education and training.

Source: Organisation for Economic Co-Operation and Development. *Education At A Glance: OECD Indicators 1995*

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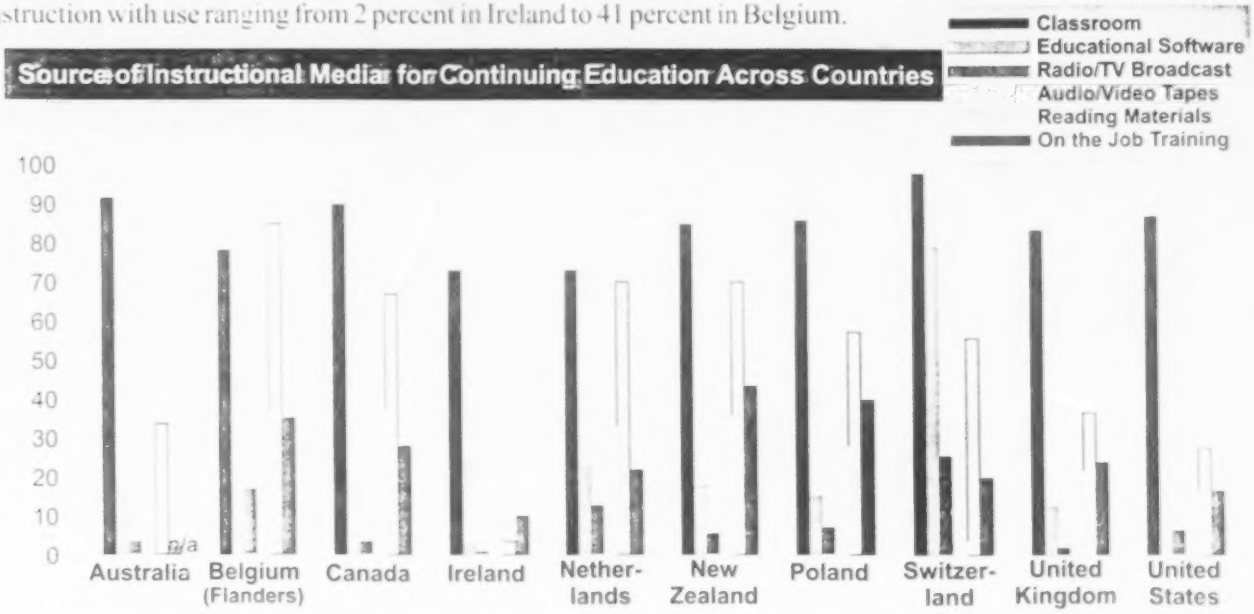
Education and Training Courses Use a Variety Of Instructional Media...

While many types of media are being used to deliver educational training, the traditional medium of classroom instruction is by far the most used. Reading materials are used in over half of the courses, except in Ireland, Australia, the United Kingdom, and the United States. Educational software is becoming an important medium of instruction with use ranging from 2 percent in Ireland to 41 percent in Belgium.



Note: Numbers may add up to more than 100 percent since respondents could cite more than one type of media used in the course.

Source: Organisation for Economic Co-Operation and Development, *Education At A Glance: OECD Indicators 1998*.

Of Those Who Wanted to Participate in Training But Could Not, the Reason for Non-Participation Varied Across Countries...

Among a series of institutional barriers, financial reasons were the most prevalent reason for non-participation in training. More than one in five persons identified this as a problem in the United States and several other countries. In other instances, the fact that a course was not available was an important barrier. Relatively few persons noted that they lacked the qualifications to take a course.

Source: Organisation for Economic Co-Operation and Development, *Education At A Glance: OECD Indicators 1998*.

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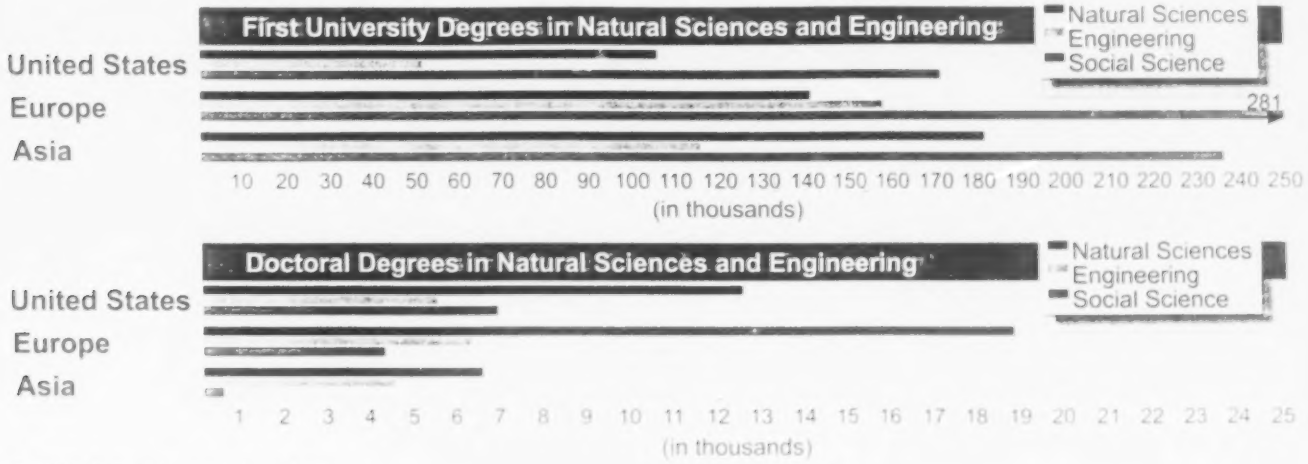
Western Europe Leads the United States and Japan in Producing Science and Engineering Ph.D.s...

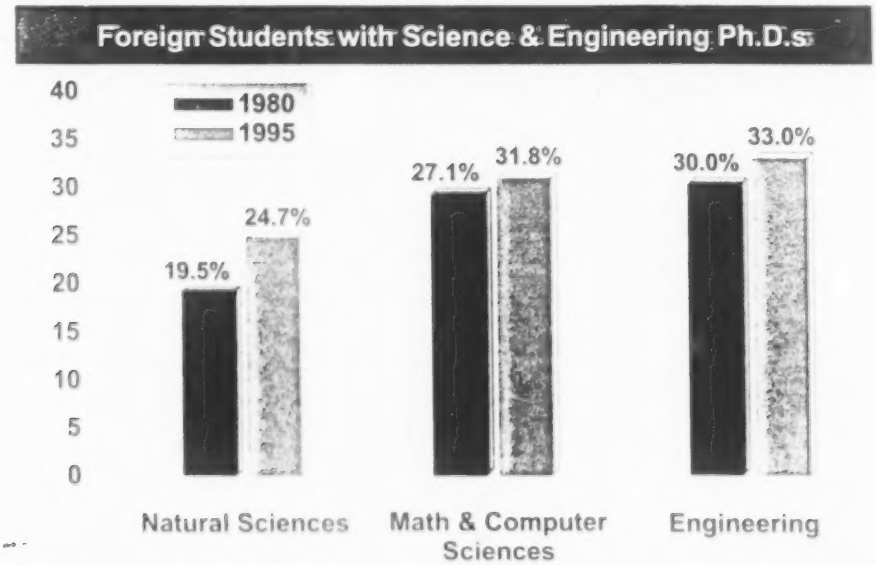
Only 15 percent of all undergraduate degrees are awarded in the U.S. in natural sciences and engineering compared to about 30 percent in both Europe and Asia. In 1992, Asia produced over twice the number of students with a university degree in science and engineering. However, in terms of the number of doctoral degrees awarded in the same fields, Europe awarded 38 percent more students with doctoral degrees than the U.S. and more than twice as many as Asia.


First University Degrees in Natural Sciences and Engineering
Natural Sciences
Engineering
Social Science
United States
Europe
Asia
281
10 20 30 40 50 60 70 80 90 100 110 120 130 140 150 160 170 180 190 200 210 220 230 240 250
(in thousands)
Doctoral Degrees in Natural Sciences and Engineering
Natural Sciences
Engineering
Social Science
United States
Europe
Asia
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25
(in thousands)

Source: National Science Foundation

Foreign Students Represent a Large Share of Science and Engineering Ph.D.s...

Foreign students represent a growing share of all doctoral degrees awarded in the U.S. in science and engineering. In 1995, one in four doctoral degrees in natural sciences was awarded to a foreign student and one third of all Ph.D.s in engineering went to foreign students.



Source: National Science Foundation

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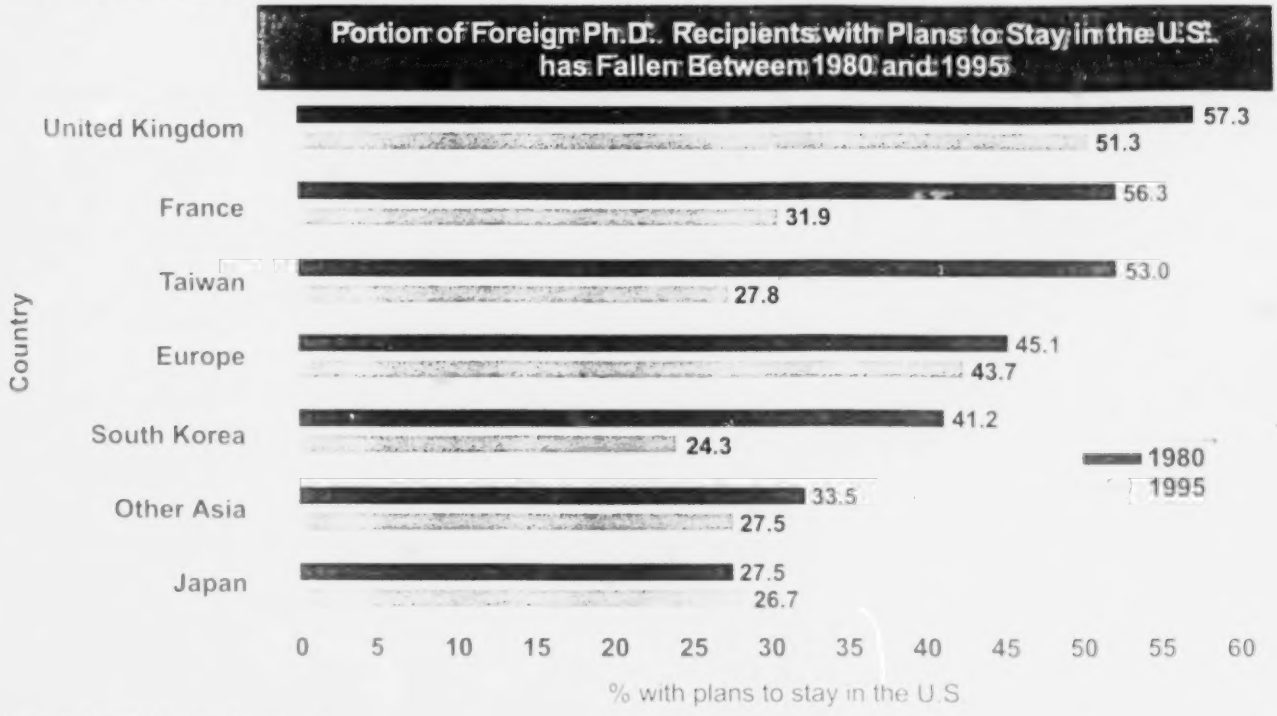
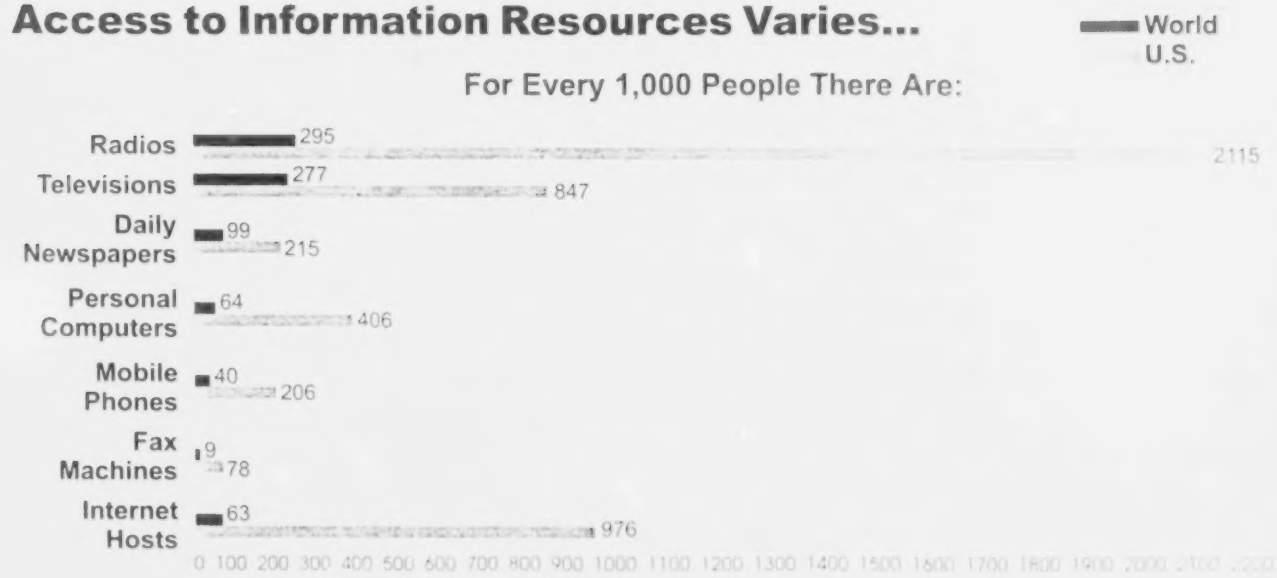
More Foreign-National Ph.D.s are Returning Home to Work...

The share of foreign students earning a doctorate in science and engineering with plans to stay in the U.S. has fallen between 1980 and 1995.



Source: National Science Foundation

Access to Information Resources Varies...



Source: World Bank, *1998 World Bank Indicators*

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